Order Code IB93034

CRS Issue Brief for Congress
Received through the CRS Web

Welfare Reform: An Issue Overview

Updated June 16, 2000

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SUMMARY

In passing FY2001 appropriations (H.R. 4577) for the Department of Health and Human Services (HHS) on June 14, the House voted to freeze at their FY1998 level supplemental grants for Temporary Assistance to Needy Families (TANF) to 17 states with high population growth and historically low federal welfare spending. The freeze, proposed by the Administration and estimated to reduce FY2001 outlays by $20 million, also is in the Senate Appropriations Committee bill (S. 2553). H.R. 4577 and S. 2553 differ on funding for the Social Services Block Grant (SSBG). The House bill maintains SSBG funding at the current level, $1.7 billion; the Senate bill cuts it by two-thirds, to $.6 billion. The Senate Committee said states could supplement SSBG funds with money from other sources, including unspent TANF balances, which totaled $2.2 billion on Sept. 30, 1999.

In FY1999, state TANF programs spent 49% of the $22.9 billion in federal funds available to them (including carryovers from two earlier years) and transferred 16% to two other block grants, according to state data released by HHS. Expenditures of federal TANF funds totaled $11.3 billion, two-thirds of which went for cash and work-based payments ($6.5 billion) and work activities ($1.2 billion). Addition of state outlays (excluding child care spending countable toward maintenance-of-effort rules of the Child Care and Development fund as well as TANF) brought total FY1999 TANF spending to $21.7 billion, slightly above the FY1998 level.

The President's budget also recommended an extension of time for spending Welfare-to-Work (WtW) formula grants, and the Senate bill allows 2 more years, for a total of 5). At the start of FY2000, states had spent only $220 million of almost $2 billion in WtW formula grants intended to help severely disadvantaged TANF recipients move into jobs. Other welfare proposals in the budget would expand the Earned Income Tax Credit (EITC) for married couples and for families with more than two children, make refundable the Child and Dependent Care Tax Credit, earmark $25 million of Social Services Block Grant (SSBG) funds for homes for unwed teen parents, and permit state food stamp programs to use the higher auto asset limits of their TANF programs. Like the 2000 budget, the 2001 budget proposes to restore eligibility for Supplemental Security Income (SSI), Medicaid and food stamps to certain legal immigrants, and it seeks increased funds for WtW transportation aid, WtW housing vouchers, Individual Development Accounts (IDAs), and child care.

Proposals to allow use of unspent TANF funds for other purposes have stirred calls for states to boost spending for aid and services to needy families with children. The buildup of funds has occurred because of the steep drop in the caseload. In September 1999, at 2.5 million families, numbers were the smallest since 1970 and 44% below those of August 1996, when TANF was enacted.

TANF replaced the entitlement program of Aid to Families with Dependent Children (AFDC) with a fixed grant to states for *time-limited* and *work-conditioned* aid. It imposes a 5-year limit on federally funded cash aid for basic, ongoing needs and sets minimum work participation rates. Studies of TANF leavers find that many have low-wage jobs. TANF issues include education as work, required state funding, waiver of rules for domestic violence victims, penalties for state failure to meet 2-parent family work minimums, unspent funds, data reporting, circumstances of TANF "leavers."

MOST RECENT DEVELOPMENTS

The House voted on June 14 (HHS appropriations, H.R. 4577) to maintain funding for the social services block grant (SSBG) for FY2001 at $1.7 billion, but to freeze supplemental TANF grants for 17 states at their FY1998 level (an Administration proposal). By voice vote, the Senate on June 8 adopted an amendment (S.Amdt. 3264, Wellstone) requiring a report from HHS before June 1, 2001, on changes in the incidence and intensity of child poverty since passage of TANF. HHS has announced that it will sponsor a conference in Reno, Nevada, on July 26-27 on strategies for overcoming substance abuse and mental health problems that impede work of welfare families. On May 26, a guidance was issued to TANF agencies on use of TANF, WtW and Job Access funds for transportation services to welfare families. In mid-March governors were urged by the Human Resources Subcommittee chairman not to replace state dollars with TANF dollars.

BACKGROUND AND ANALYSIS

System of Family Welfare

States administer TANF and set its maximum benefits. Enrollment in AFDC/TANF has been steadily falling since spring of 1994. The September 1999 TANF caseload numbered 2.468 million families, down 2.6 million (51%) from the March 1994 record-high level (5.084) and the smallest since 1970. Recipients numbered 6.6 million. Average monthly caseloads in FY1998 fell 35% below the FY1995 average; for states with so large a drop the caseload reduction credit will erase the FY1999 all-family work requirement of 35%. Food stamp rolls also have dropped sharply. In November 1999, 17.6 million persons were enrolled, 37% fewer than the peak number of March 1994 (28 million). Enrollment of children and their parents in Medicaid declined 2% from FY1996 (28.8 million) to FY1997 (28.1 million). TANF enrollment normally qualifies a family also for food stamps and free school meals, as did AFDC. However, TANF does not confer automatic eligibility for Medicaid. A TANF family must be given Medicaid only if it would qualify for AFDC if that program still were in existence. The EITC is the largest form of income-tested federally funded cash aid for families (*see CRS Report 94-399 for credit amounts*).

An August 1999 CEA study estimated that about one-third of the 1996-1998 caseload drop was due to welfare reform policy changes, 8-10% to the economy, and 10% to the higher minimum wage. The labor force participation rate of women maintaining families with children soared 14% from the first quarter of 1994 to the same quarter of 1998 (to 77.6%). The CEA 1999 annual report indicated that up to 60% of the increase in work by single mothers since 1984 could be attributed to EITC expansions and 30% (of the 1984-1996 increase) to changes in the welfare system.

FY1998 estimated spending for low-income children and their families by selected major income-tested programs that give cash, food, medical, and housing aid reached $128.6 billion, compared with $126 billion in FY1997. (**Table 1**). Total outlays for these groups declined

12% for AFDC/TANF, 10% for food stamps, and 6% for Medicaid, but rose for EITC and housing.

Table 1. Estimated Income-Tested Outlays for Children and Their Families from Selected Major Programs, FY1997 and FY1998[a]

	Federal Funds ($ in billions)		**State-local Funds ($ in billions)**		**Recipients[b] (in millions)**	
	FY1997	FY1998	FY1997	FY1998	FY1997	FY1998
Cash aid	**$43.1**	**$44.6**	**$11.8**	**$10.0**	**—**	**—-**
(AFDC/TANF)	(12.9)[c]	(11.0)[d]	(10.9)[c]	(10.0)[d]	10.9[e]	8.8[e]
(EITC)[f]	(24.0)	(28.8)	0	0	17.2	19.4
(SSI)[g]	(5.3)	(4.8)	N.A.	N.A.	1.0	.86
(Emergency Assistance)[h]	(0.85)	0	(0.85)	0	0.24	0
Food benefits	**29.2**	**28.0**	**N.A.**	**N.A.**	**—**	**—-**
(Food stamps)[i]	(18.5)	(16.5)	(1.0)	(1.1)	19.5[e]	17.0[e]
(Subsidized meals)[j]	(6.9)	(7.6)	N.A.	N.A.	16.0	17.0
(WIC)	(3.8)	(3.9)	N.A.	N.A.	7.4[e]	7.4[e]
Major medical aid	**17.0**	**16.0**	**12.8**	**N.A.**	**29.6**	**N.A.**
Medicaid[k]	(17.0)	(15.9)	(12.8)	(12.0)	28.8[e]	28.1[e]
S-CHIP[l]	0	(0.1)	0	N.A.	(0.8)	N.A.
Major housing aid	**11.1**	**16.9**	**0**	**0**	**4.8**	**4.8**
(Public housing and Section 8)	(7.6)	(12.1)	[m]	[m]	(4.7)[n]	(4.7)[n]
(USDA programs)[o]	(3.5)	(4.8)	0	0	(0.1)[p]	(0.1)[p]

a. Includes administrative costs where available. Excludes education, job training, employment and training operations under the food stamp program, social services, energy aid, and numerous smaller programs.
b. *Caution*: Average monthly number of individuals, *except*: school meals, school-year daily average of lower income lunch recipients; WIC, monthly averages: Medicaid, *yearly total* estimates; EITC, *yearly total* number of *families*; and housing, number of *households* at end of year.
c. AFDC/TANF transition year. Cash benefits and work program outlays (AFDC/JOBS and TANF)
d. First full year of TANF (cash benefits and work program spending)
e. Includes parents. Child totals: food stamps, 12.2 million in FY1997, 10.7 million in FY1998; WIC, 5.7 million and 5.6 million, respectively; AFDC/TANF, 7.5 million in FY1997, 5.9 million (estimate) in FY1998; Medicaid, 20.5 million and 19.7 million, respectively (note that Medicaid data are for year earlier than column heading).
f. Credit earned in calendar year preceding the fiscal year (example, CY1997 for FY1998). Direct payments, $20.6 billion for CY1996; $23.2 billion for CY1997. Reduced tax liability, $3.4 billion and $5.6 billion.
g. Blind or disabled children.
h. EA was ended by TANF block grant, effective in final quarter of FY1997, at latest. Recipient estimates assume 3 persons per family.
i. Includes Puerto Rico's nutritional assistance program
j. Includes income-tested parts of school lunch, school breakfast, and child care food programs; also summer food service program. (Excludes cost of commodities.)

k. Spending and recipient estimates are for the year *preceding* the one named.
l. S-CHIP (State-Children's Health Insurance Program) began in FY1998, and the federal spending figure is an estimate from the Congressional Budget Office
m. Localities accept below-tax payments in lieu of property taxes on public housing projects.
n. Based on estimated percentage of households with children: FY1997 and FY1998, public housing, 45%; Section 8, 66%.
o. Subsidized loans to low-income persons for homeownership (Section 502) and rental aid (Sections 515/521).
p. Represents housing units, each of which generally can accommodate one family. USDA does not collect data on children in households.

TANF Trends and Data

Under TANF, states have adopted varying combinations of tougher work sanctions, "Work First" policies, financial rewards for work, and diversion of applicants from enrollment. Welfare-to-work efforts have urgency because the law restricts federally funded TANF aid for an adult to 60 months (lifetime limit), and many states impose shorter limits. Nationally, caseloads continue a sharp decline that began in 1995. Persons now on the rolls include rising proportions of long-term recipients and minorities. Nationally, TANF has doubled the fraction of adult recipients who have earnings (from the FY1996 average level of 11.2%); their FY1998 earnings averaged $553 monthly, up 19% from the pre-TANF level. Available data indicate that in some states from 50-65% of persons who leave the rolls have jobs then or a short time later (compared with a general work exit rate of almost 50% before TANF) and that the jobs generally pay wages slightly above the minimum. *See CRS Report 98-369*. The 1998 poverty rate among children in female-headed families (with no spouse present) was 46.1%, compared with 49.3% in 1996 and 52.9% in 1994, when AFDC numbers were record high. Combined Federal and state TANF spending (excluding state child care funds that are countable also toward required state spending for the child care block grant) totaled $21.7 billion in FY1999, up slightly from FY1998 ($21.5 billion), but down 23% from comparable FY1996 spending for AFDC and related programs ($28.2 billion). As of September 30, 1999, states had an unobligated TANF balance of $2.2 billion.

The 1996 Welfare Law, P.L. 104-193

(As modified in 1997 and 1998 by P.L. 105-33 and P.L. 105-185)

Replacement of AFDC by Temporary Assistance for Needy Families

TANF is a fixed block grant for state-designed programs of time-limited and work-conditioned aid to families with children. Enacted on August 22, 1996, it repealed AFDC, Emergency Assistance for Needy Families, and the Job Opportunities and Basic Skills Training (JOBS) program, effective July 1, 1997, at latest. It combines recent federal funding levels for these three programs into a single block ($16.5 billion annually through FY2002) and entitles each state to the sum it received in a recent year. It also provides an average of $2.3 billion annually in a new child care block grant (more than double the FY1996 federal funding level for AFDC-related child care). The TANF law appropriates extra funds for loans, contingencies, bonuses for "high performance" and for reducing out-of wedlock births, and supplemental grants for states with historically low federal welfare funding per poor person and/or rapid population gain. As amended by the Balanced Budget Act of 1997 (P.L.

105-33), it also provides a $3 billion program in FY1998-FY1999 for welfare-to-work (WtW) grants, most of which require state cost sharing, to help states achieve required work participation rates.

TANF greatly enlarged state discretion in operating family welfare, and it ended the entitlement of individual families to benefits. Under TANF States decide what categories of needy families to help and whether to adopt financial rewards/penalties to induce work and other desired behavior. They set asset limits (pre-TANF law imposed an outer limit), and continue to set benefit levels. TANF explicitly permits states to administer benefits and provide services through contracts with charitable, religious, or private organizations, a provision that has come to be known as Charitable Choice.

Attached to the TANF block grant are some federal conditions. To receive full grants, states must achieve minimum work participation rates and maintain at least 75% of their "historic" level of state welfare funding (FY1994 state spending on AFDC and AFDC-related programs), increased to 80% if the state fails the work participation rate. States must require parents and other caretaker recipients to engage in work after a maximum of 24 months of benefits (work-trigger time limit) and must impose a general 5-year time limit on federally-funded benefits (benefit time limit). They may exempt single parents with a child under age 1 from required work (and from the calculation of work participation rates). In FY2000, 40% of all families with an adult recipient must work (including 90% of families with two parents); the all-family rate rises to 45% in FY2001 and peaks at 50% in FY2002 (these rates are to be lowered for caseload declines from FY1995 levels). States are forbidden to give TANF aid to unwed parents under 18 unless they (and their children) live under adult supervision, and, if high school dropouts, attend school. States may continue pre-TANF state reforms begun under waivers from AFDC rules (until the waivers expire) even if terms are inconsistent with the new law. *(For current TANF provisions, as compared to AFDC, see CRS Report 96-720; for a summary of state TANF programs, see CRS Report 97-380.)*

Medicaid and TANF

Although the 1996 law ended AFDC, it retains AFDC eligibility limits for Medicaid use. It requires states to provide Medicaid coverage and benefits to children and parents who would be eligible for AFDC cash aid (under terms of July 16, 1996) if that program still existed. For this purpose, states may lower AFDC income and resource standards to those in effect on May 1, 1988, and may increase them by the percentage rise in the consumer price index since July 16, 1996, and may change the method of determining income and resources. The law also requires states to extend medical assistance for 12 months and four months, respectively, to those who lose TANF eligibility because increased earnings or child/spousal support lift their income above July 1996 AFDC eligibility limits.

Child Care

The 1996 welfare law created a mandatory block grant for child care to low-income families. Individual states are entitled to what they received for AFDC work-related child care, transitional child care, and at-risk child care in a recent year. States that maintain the higher of their 1994 or 1995 spending on these programs are entitled also to extra funds at the medicaid match rate. Appropriated for the block grant is $13.9 billion over 6 years, more than $4 billion above spending levels estimated by CBO for the replaced programs. The law also provides another $7 billion in discretionary funding under an expanded Child Care and Development Block Grant (CCDBG). The combined funding streams provided by the 1996 law are referred to as the Child Care and Development Fund (CCDF). States must use at least 70% of the entitlement money for welfare families that are attempting to become self-sufficient through work, or that are working but at risk of becoming dependent on welfare. The new block grant program took effect October 1, 1996. *For state CCDF programs, see CRS Report 98-875.* The President's FY2001 budget, like those for the two previous years, proposes a large expansion in child care spending. The Senate Appropriations Committee has approved $2 billion in discretionary child care funding for FY2001, an increase of $817 million over the FY2000 sum. The House-passed appropriations bill includes an increase of $400 million for FY2001 and an additional sum for FY2002 (but the advance appropriation is subject to cutbacks). *See CRS Report RL30021.*

Alien Eligibility for Welfare

The 1996 law barred legal immigrants from Food Stamps and SSI unless they have worked 10 years or are veterans, certain active duty personnel, or families of veterans or active duty personnel. However, Congress since has restored SSI and food stamps for some immigrants. The 1997 Balanced Budget Act (P.L. 105-33) restored SSI for legal aliens enrolled on August 22, 1996, when the ban was passed, and those who were here then and later become disabled; and P.L. 105-185 has restored food stamp eligibility for some immigrants, (see *Food Stamps*). The 1997 law continued a state option to extend TANF, Medicaid, and Title XX social services to legal immigrants who arrived before the 1996 law and (for persons arriving later) a ban on these and many other need-tested benefits during their first 5 years of U.S. residence. For a summary, *see CRS Report 96-617*. At passage, CBO estimated that the 1996 alien provisions would reduce direct federal outlays over 7 years by $23.7 billion, but P.L. 105-33 and P.L. 105-185 have been estimated to restore more than half of this over 5 years ($9.5 billion in SSI, $2 billion in Medicaid and $800 million in food stamps). The FY2001 (like that for FY2000) proposes to restore SSI (and derivative Medicaid) to legal immigrants who came after August 1996, have been here 5 years and become disabled after entry; and to permit states to extend Medicaid to some legal immigrant children and pregnant women who entered after August 1996 (see CRS Report RS20061). In the first session of the 106th Congress, no changes were made, but a pending bill (S. 792) includes the President's proposals.

Food Stamp Revisions

The 1996 law expanded states' food stamp role, added new work rules, restricted benefits, and barred eligibility for most legal aliens. At passage, net federal food stamp outlay savings (over 5 years) were estimated at $23.3 billion. P.L. 105-33 provided $1.5 billion over 5 years for provisions that moderated the new work rule. P.L. 105-33 and P.L. 105-18 dramatically increased funds for food stamp work and training programs and allowed states to pay for food stamps for persons made ineligible for federally financed stamps by the 1996 law. In 1998, P.L. 105-185 restored food stamp eligibility for immigrant children, aged, and disabled aliens here before August 22, 1996. The 1998 law also reduced funding for employment and training costs (but did not wipe out the 1997 gain) and for administrative costs.

Social Services Block Grants

The 1996 Act reduced the $2.8 billion entitlement ceiling for Social Services Block Grants (SSBG) under title XX of the Social Security Act by 15% and entitles states to $2.38 billion annually in FY1997-FY2002. However, Congress later appropriated $2.5 billion for FY1997, $2.3 billion for FY1998, $1.9 billion for FY1999, and $1.8 billion for FY2000. Beginning in FY2001, P.L. 105-178 reduces the entitlement ceiling from $2.38 billion to $1.7 billion and decreases to 4.25% the share of TANF funds that states may transfer to SSBG. *See CRS Report 94-953.* The FY200l budget proposes to add $75 million to SSBG (above the authorized $1.7 billion for the year), but to earmark $25 million for second chance homes for unwed teen parents and their children. S. 2553, approved by the Senate Appropriations Committee May 11, cuts FY2001 funding to $600 million. The House- passed bill (H.R. 4577) maintains SSBG funding at $1.7 billion. Pending legislation would restore the SSBG ceiling to the level authorized in 1996 and allow continued transfer of 10% of TANF funds to SSBG (S. 2585 and H.R. 4481).

TANF Issues

Definition of "Work Activities" and the Role of Education

What activities are countable in calculating a state's work participation rate? In contrast to JOBS, which allowed states to treat postsecondary education as a countable activity, TANF law includes only three educational activities: vocational *educational* training (for no more than 12 months), secondary school attendance (or equivalent) and education directly related to employment (adult high school dropouts and teen-aged parents only). As amended in 1997, the law allows 30% of the persons in all TANF families and in 2-parent TANF families, respectively, *who are treated as engaged in work* to consist of persons who are participating in vocational educational training or who are teenage household heads engaged in schooling (until October 1, 1999, the law permitted an unlimited number of teenage household heads to be counted as workers by virtue of educational activity). Even though it is not listed as a countable activity, many states now include postsecondary education in their TANF programs. Many states may do so without risk of penalty because the sharp drop in FY1999 caseloads is likely to wipe out their overall FY2000 work participation rate of 40%.

Application of Minimum Wage Laws

JOBS law directed that work hours in community work experience programs (workfare) be calculated at the minimum wage (higher of the federal or state rate) and specified that welfare recipients whose wages were subsidized with their benefit were not to be treated as "employees." This meant they were not covered by the Fair Labor Standards Act (FLSA), which sets wage and hour standards. Unlike JOBS law, TANF law is silent on these issues. Thus, a critical issue is whether or not TANF participants in work programs are held to be "employees" with "earnings." Another issue is whether workfare "wages" are subject to payroll taxes, unemployment insurance and federal income taxes. Over objections of the National Council of State Human Service Administrators and some governors, but with the support or organized labor, the administration has held that the Fair Labor Standards Act (FLSA) generally applies to community service and work experience positions. Its position was summarized in a May 22, 1997 memorandum of the Labor Department. The Department said most welfare recipients in 'workfare' arrangements would be classified as 'employees' under the FLSA's broad definition and, hence, must receive the minimum wage rate. It said food stamps could be counted under a food stamp workfare program or a food stamp work supplementation program (where wages are subsidized by food stamps) toward meeting minimum wage requirements, but that credit could not be taken for health insurance or other benefit payments excluded under the FLSA. Congress has acted on the issue of the EITC for workfare. The Taxpayer Relief Act (P.L. 105-34) disallows the EITC for TANF payments made to participants in work experience or community service.

On December 18, 1998, the Internal Revenue Service announced that it has decided to exclude TANF workfare payments from federal income and employment taxes, provided they meet three conditions: (1) the only payments received by the TANF recipient are received directly from the state or local welfare agency (an entity with which a state or local agency contracts to administer the program would be treated as the state or local agency); (2) the person's TANF eligibility is based on need and the only payments for his/her work activity are funded entirely under a TANF program; and (3) recipients are not required to participate more hours for their benefit than yield the minimum wage equivalent (hours may not exceed the TANF grant divided by the minimum wage rate). *See CRS Report 97-1038*.

How many state TANF programs might be affected by the Administration's decision that most workfare recipients are covered by the minimum wage? TANF law sets minimum average weekly hours of work; for single parents, they started at 20 hours, but rose to 25 hours in FY1999 and to 30 hours in FY2000 (2-parent families must work 35 hours weekly). At the federal minimum wage ($5.15), a 30-hour weekly workfare assignment equates to $154.50 in benefits ($669 per month). Only in New York (in Suffolk County), Alaska, and Wisconsin (Community Service program), are TANF maximum benefits for a 3-person family (as of Jan. 1, 2000) high enough to provide the required amount for 30 hours of work by a single-parent family. Many of the other states could observe the workfare minimum "wage" by adding food stamps to the calculation, but some states would have to increase cash benefits. (Both Houses of Congress have voted to increase the federal minimum wage to $6.15 an hour, the Senate over 3 years, the House [on March 9] over 2 years.)

Work Participation Rates and Penalties

In early January, 2000, an HHS official said that the number of states that serve two-parent families in separate state programs, which are free of TANF minimum work targets and time limits, has more than doubled (from 6 in FY1998 to 13). All jurisdictions except Guam, Puerto Rico, and the Virgin Islands achieved the all-family work rate in FY1998, but 15 failed the higher two-parent family work rate (and four reported having no 2-parent families that year). The statutory minimums for FY1998 were 30% for all families and 75% for two-parent families; but actual state standards were adjusted downward to give credit for reductions in caseload from FY1995 to FY1997 and, in the case of Vermont, to reflect terms of pre-TANF waivers still in effect. The six states that placed two-parent families in non-

TANF programs in FY1998 were Alabama, Florida, Georgia, Hawaii, Maryland, New Jersey. Since then seven other states have moved two-parent families into separate state programs: California and Connecticut, which met their FY1998 adjusted work targets of 33% and 67%, respectively, Delaware, Nebraska, Rhode island, and Virginia, which failed their adjusted targets, which averaged 52%, and South Dakota, which reported no 2-parent cases in FY1998. States that failed their minimum work participation rates are subject to a penalty (for first year's failure, loss of 5% of the TANF block grant, for second year's failure, 7% of the grant, with the penalty based on "the degree of noncompliance"), and under the law they must spend an amount equal to their penalties (in effect, replacing the lost funds); finally, their required state spending level (maintenance-of-effort [MOE] requirement) is increased to 80% of its historic level. The law permits states who fail to achieve work rates to submit a corrective action plan or appeal the penalty on grounds of reasonable cause. In final TANF regulations, HHS said states that offered TANF to non-custodial parents could choose whether or not to include them in calculating work participation rates of two-parent families. The National Council of State Human Services Administrators on March 9, 1999, adopted a resolution calling on the Administration and Congress to consider modifying the 2-parent work rules (90% work participation rate required since FY1999) in various ways.

"Charitable Choice" and Privatization

The 1996 welfare law permits states to "administer and provide services" under TANF, food stamps, and Medicaid through contracts with charitable, religious, or private organizations. However, food stamp and Medicaid law effectively require *eligibility to be determined* by a public official. On November 16-17, 1999, two units of HHS (the Administration for Children and Families and the Substance Abuse and Mental Health Services Administration) sponsored a national conference on Welfare Reform and the Faith Community. In advance, HHS said the conference would help state and local government authorities develop procedures to encourage community and faith-based organizations to provide welfare-to-work support services.

Welfare-to-Work (WTW) Grants

The basic TANF block grant earmarks no funds for any program component, benefits or work programs. In response to a presidential budget proposal, the 1997 Balanced Budget Act established a $3 billion welfare-to-work grant program for FY1998-FY1999, administered by the Secretary of Labor. It required 75% of funds (after set-asides) to be used for 33% state matching formula grants, allocated on the basis of state shares of the adult TANF population and the poverty population; it required the remaining 25% of WtW funds to be used for competitive grants. By the end of FY1999, all available WtW funds had been awarded. Over the 2 years, formula grants totaled almost $2 billion, and competitive grants, $712 million; the law allows states 3 years in which to spend WtW funds. The original law set aside $100 million for performance bonuses, $30 million for Indian tribal grants, and $24 million for evaluations (but P.L. 106-113 reduced setasides somewhat). At the start of FFY2000, states had spent only $220 million of formula grant awards. The FY2001 budget proposes to give states another 2 years in which to spend WtW funds; the Senate Appropriations Committee approved this change in reporting out S. 2553 on May 11.

As originally enacted, 70% of funds had to be used for the benefit of TANF recipients (and non-custodial parents) with at least two specified barriers to work who themselves (or whose minor children) were long-term recipients (30 months of AFDC/TANF benefits) or were within 12 months of reaching the TANF 5-year time limit or a shorter state time limit. The target groups had to have at least two of these three work impediments: lack a high school diploma *and* have low skills in reading or mathematics, require substance abuse treatment for employment, and/or have a poor work history. WtW eligibility was liberalized by P.L. 106-113. Effective July 1, 2000, states may incur obligations for payment from formula grant allotments (and use state matching funds) on behalf of four new groups: long-term TANF recipients without specified work barriers, former foster care youths 18 to 24 years old, TANF recipients who are determined by criteria of the local private industry council to have significant barriers to self-sufficiency, and non-TANF custodial parents with income below the poverty line. The new law also changed rules concerning WtW for non-custodial parents. Eligible under the new rules are noncustodial parents who are unemployed, underemployed, or having difficulty paying child support, provided their minor child meets certain standards and the non-custodial parent is in compliance with an oral or written personal responsibility contract. The expanded eligibility rules took effect January 1, 2000 for competitive grants (and, as noted above, July 1, 2000 for formula grants). However, federal expenditures from formula grants for the newly eligible groups may not be made until October 1, 2000.

Activities that may receive WtW funds are the conduct and administration of community service or work experience programs; job creation through wage subsidies, on-the-job training, contracts with providers of readiness, placement, and post-employment services, job vouchers for placement, readiness, and post-employment services, job retention or support services if these services are not otherwise available; and, added by P.L. 106-113,up to six months of vocational educational or job training (however, vocational educational or job training does not become an allowable formula grant activity until July 1, 2000).

Transfer of TANF Funds

The law allows states to transfer up to 30% of TANF funds to the Child Care and Development Block Grant (CCDBG) and the Title XX social services block grant (SSBG), but sets a limit of 10% on the share that can go to SSBG. Cumulative transfers from TANF awards through the first half of FY1999 totaled $3.5 billion, 9.3% of awards. In FY1998, states transferred 10.5% of 1998 awards (6.5% to SSBG and 3.9% to CCDBG). P.L. 105-178 cut the share of funds that can go to SSBG to 4.25%, effective in FY2001. P.L. 105-200 allows states to use TANF funds, within the overall 30% transfer limit, as state matching funds for job access grants to provide transportation services to TANF recipients and ex-recipients, noncustodial parents of TANF children, and those at “risk” of becoming eligible for TANF. The Senate Budget Committee’s FY2001 budget resolution (S.Rept. 106-251) and other legislation (S. 2585 and H.R. 4481) would repeal the scheduled reduction to 4.25% for FY2001.

Domestic Violence Option

The 1996 law allows states to certify in their TANF plans that they have adopted standards to screen and identify TANF recipients with a history of domestic violence, refer them to services, and waive program requirements in some cases. *See CRS Report 97-1032*. The Senate several times voted to allow unlimited TANF waivers for victims of domestic violence and to disregard these persons in computing a state's work participation rate, but the House has disagreed. S. 1069 revives these provisions. See *Final TANF Regulations* for penalty exemption provision.

Transportation for TANF Recipients

The 1998 transportation act (P.L. 105-178) authorized $750 million in 50% matching funds over 5 years for matching grants for job access and reverse commute grants for welfare recipients, of which no more than $10 million annually can be for reverse commute projects. It said funds were to be used to develop services to move welfare recipients and other low-income persons (income not above 150% of the poverty level) to and from jobs and work-related activities. As noted immediately above, states may use TANF funds, within limits, as state matching funds for these grants. Appropriations for FY1999 and 2000 were $75 million annually (half the amount sought by the Administration). The FY2001 budget again proposes $150 million. On May 13, 1999, the Department of Transportation (DOT) announced award of $71 million for 170 job access and reverse commute projects, and on March 10, 2000, DOT announced the second round of competitive job access grants. For details, see [http//www.fta.dot.gov/library/legal/fr31000.htm].

Housing Vouchers for TANF Recipients

The President's FY1999 budget proposed tenant-based housing assistance to help eligible TANF families move to work ($283 million, sufficient for 50,000 vouchers). Congress included these vouchers in the FY1999 HUD appropriation act (P.L. 105-276) but specified that at least $32 million of the $283 million total be made available for initiatives in eight localities (Anchorage, Charlotte, Cleveland, Kansas City, Miami/Dade County, New York City and two counties in California and Maryland). The law makes sweeping changes in subsidized housing, including: Reducing the share of units reserved for very poor families in an effort to achieve an income mix; requiring housing agencies to set minimum rents (not above $50 monthly); allowing tenants to choose a flat rent or income-adjusted rent; forbidding housing agencies to increase the rent for one year of TANF recipients (or some other previously unemployed persons) who take a job; and requiring adult public housing residents, for 8 hours monthly, to participate in a self-sufficiency program or in community service. *See CRS Report 98-868.* The FY2000 budget included $427 million for WtW housing vouchers, a 50% increase from FY1999. However, the FY2000 appropriation provided no increase for WtW housing vouchers. The FY2001 budget requests $183 million for 32,000 new WtW housing vouchers, raising total vouchers to 82,000. For a general discussion of housing for the poor, see CRS Report 98-860.

Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WTW)Tax Credit for hiring persons who had received AFDC/TANF for 18 months. It also extended an existing credit called the Work Opportunity Tax Credit (WOTC)for hiring certain persons, including those who had received TANF for 9 months. In late 1999, Congress extended both credits retroactively and through December 31, 2001 (P.L. 106-170). *See CRS Report RL30089.*

Individual Development Accounts (IDAs)

The 1996 law permits states to use TANF funds to carry out a program of individual development accounts (IDAs) established by (or on behalf of) persons eligible for TANF, with no dollar limit. Accounts are to contain deposits from the recipient's earnings, matched by a contributions from a not-for-profit organization, or a state or local government agency in cooperation with the organization. Withdrawals are allowed only for postsecondary educational expenses, first home purchase, and business capitalization. All means-tested programs must disregard amounts in IDAs (including accruing interest). Some states mention IDAs in their TANF plans. In 1998, Congress established a 5-year program of IDA demonstration projects (Assets for Independence Act [AIA], Title IV of P.L. 105-285) for TANF-eligible persons and certain other low-income workers. Appropriations for FY1999 and FY2000 were $10 million each. On Sept. 21, 1999, HHS awarded $9.4 million for AIA demonstrations to 38 competitive bidders (out of 70) and to state government departments in Indiana and Pennsylvania that had begun statewide IDAs before AIA was passed; and on Dec. 14, 1999, HHS invited applications for FY2000 awards (deadline, May 15, 2000). The President's FY2001 budget requests $25 million for this program and proposes to allow use of IDA funds to buy a car needed for work. Pending is a proposal (the Savings for Working Families Act–S. 2023 and H.R. 4106) to expand eligibility for IDAs and to promote their growth through tax incentives. (See CRS Report RS20534)

Unspent TANF Funds

At the end of FY1999, HHS reports that states had an unspent and unobligated balance in the U.S. Treasury of $2.248 billion in TANF funds, from FY1997, FY1998, and FY1999 TANF grants. A total of 35 states (including D.C.) had unobligated TANF balances. Largest reserves were held by New York, $684 million; Ohio, $150 million; Massachusetts, $146 million; and West Virginia, $145 million. States may draw TANF funds from the Treasury only for reimbursement of expenditures. In late July, 1999, reports circulated that House Republican leaders might seek to "reprogram" or take back unused TANF funds. The White House, the National Governors' Association, and others vigorously protested the idea. A pending bill, H.R. 635, permits use of TANF funds for building classrooms and hiring public school teachers. The law sets no fiscal year deadline for expenditure of TANF funds for "assistance." The narrow definition of assistance adopted in final regulations (see below) means that reserve funds that are carried forward cannot be used for many activities and services for employed families.

The Working Poor

Studies of welfare leavers have increased awareness of the working poor and aroused interest in income supports for low-wage workers. It is argued that ex-TANF families should not be tempted to return to welfare, that job retention strategies are needed, and that access to unemployment insurance should be eased for some low-wage workers (see H.R. 3708, which would affect workers who lose a part-time job). The proportion of the poor who receive food stamps and/or medicaid appears to have declined since repeal of AFDC (which was an automatic ticket to these other two benefits), and efforts are underway to promote access to these benefits by eligible persons.

Final TANF Regulations

Final TANF regulations, issued April 12, 1999, took effect October 1, 1999. The rule defines "assistance" to include cash, payments, vouchers and other forms of benefits directed at ongoing, basic needs; it also includes supportive services such as child care and transportation to families who are *not employed*. It excludes non-recurrent, short-term benefits for crisis situations (needs extending no more than 4 months). It also excludes child care, transportation and other supports provided to *employed families*, IDA benefits, refundable earned income tax credits, work subsidies to employers, and services such as education and training, case management, job search, and counseling. The final rule contrasts with the original (1997) proposal, which defined assistance broadly, encompassing most forms of support, excluding only services without direct monetary value and one-time, short-term assistance. The final rule retains the requirement that a state must report data on individuals and families receiving assistance (as now defined) under separate state programs (and on former recipient families in separate state programs) in order to qualify for a "caseload reduction credit" against its required work participation rate or to receive a high performance bonus.

The regulations also retain proposals to permit a state that has adopted the Family Violence Option (FVO) to receive "reasonable cause" exceptions to penalties for failing work and time limit rules if the state had granted domestic violence waivers that met certain standards. The rule provides that States must submit a financial report quarterly (ACF Form 196) showing expenditure of Federal funds, state maintenance-of-effort (MOE) funds in TANF, and state MOE expenditures in separate state programs. These reports are to show expenditures on assistance (basic aid, child care, other supportive services, assistance authorized solely under pre-TANF law) and on specified categories of non-assistance. The regulations and preamble can be found in the *Federal Register*, April 12, page 17720-17918.

Federal Jobs for Welfare Recipients

President Clinton on March 8, 1997, ordered federal agencies to hire TANF recipients into available jobs. *See CRS Report 97-466*. In response, agencies made commitments to hire 10,638 welfare recipients. As of April 22, 2000, the Office of Personnel Management (OPM) reported that hires totaled 28,634, 269% of the target. Vice-President Gore said on August 2, 1999, that as of September 1998, almost 70% of federal welfare-to-work hires were still in their jobs after one year (compared with a retention rate of only 37% for other persons hired for similar jobs and at similar pay levels).

TANF Bonus Funds

On September 13, 1999, HHS announced award of $100 million in bonuses to five jurisdictions for achieving the largest percentage reductions in out-of-wedlock birth rates between 1994 and 1997. The winners (and their 1996-97 birth rates to unmarried women, followed by the percentage decline from their 1994-95 rates): California, 30.4%, down 5.7%; D.C., 64.9%, down 3.7%; Michigan, 33.5%, down 3.4%; Alabama, 33.8%, down 2%; and Massachusetts, 25.7%, down 1.5%. For the U.S. as a whole, the non-marital birth rate was virtually unchanged at 32.4%. Non-martial birth rates *increased* in 35 states, including New York. The bonuses were established by the 1996 welfare reform law.

On December 4, 1999, HHS announced award of the first TANF high performance bonus: $200 million to 27 states, based on state rankings (absolute and relative) in FY1998 on work-related measures rates of job entry and success in the workforce (job retention and earnings gain). Winners ranked among the top 10 states in at least one of the categories. Bonuses ranged from $0.5 million in South Dakota (for improvement in job entry) to $45.5 million in California, for both absolute and relative success in the workforce). HHS said that beginning in performance year FY2001 three new performance measures will be added: "family formation" (increase in the percentage of children below 200% of poverty living in married couple families), enrollment in health insurance (Medicaid or CHIP), and enrollment in food stamps [http://www.acf.dhhs.gov/news/press/1999/hpb.htm]. The American Public Human Services Association and the National Governors' Association raised objections to the proposed nonwork measures. In joint comments they said the food stamp measure would hold state TANF administrators responsible for enrollment in another program and for decisions made by families who never entered TANF; they commented that the Medicaid/S-CHIP measure failed to recognize that families might have access to private health insurance. In joint comments, the Center for Law and Social Policy and the Center on Budget and Policy Priorities generally approved the food stamp and Medicaid performance measures, but urged increasing bonus amounts and making awards both on an absolute and relative (improvement) basis. On July 1, 1999, the Senate adopted a Wellstone amendment (S.Amdt. 1212) to change the high performance bonus and require some tracking of ex-TANF recipients, but this was deleted by conferees from H.R. 2490 before passage on September 14. See H.R. 310, H.R. 699, H.R. 3150, and S. 1154 for pending proposals to revise the high performance bonus.

LEGISLATION

P.L. 106-113

Consolidated Appropriations Act. Law broadens eligibility for WtW grants and adds limited vocational educational or job training to allowable activities. (Derived from H.R. 3053). Signed into law November 29, 1999.

H.R. 310 (Towns)

TANF. Makes ineligible for the TANF high performance bonus a state in which the child poverty rate increased by 5% or more in the preceding fiscal year. Introduced January 7, 1999, referred to Ways and Means Committee.

H.R. 635 (Collins)

TANF. Permits use of TANF block grant funds for building classrooms and hiring teachers for elementary and secondary public schools. Introduced February 9, 1999, referred to Ways and Means Committee. (See also H.R. 2320.)

H.R. 683 (Meek)

TANF, Food Stamps, other Welfare. Requires federally-funded benefit programs to disregard compensation to temporary Census employees hired for the 2000 decennial count. Reported (amended) by Government Reform Committee on April 26, 1999.

H.R. 699 (Woolsey)

TANF. Building Opportunities Bonus Act. Authorizes $1 billion over 5 years for high TANF performance bonuses. Criteria include child care adequacy/quality, education/training for jobs with "sustainable" wages, and collaboration with state domestic violence coalitions. Introduced February 10, 1999, referred to Ways and Means Committee. See also H.R. 3150 and S. 1154.

H.R. 932 (Mink of Hawaii)

TANF, EITC. Makes eligible for EITC a portion of welfare benefits that are contingent on employment. Introduced March 2, 1999, referred to Ways and Means Committee.

H.R. 2102 (Houghton)

WOTC. Permanently extends (and modifies) the credit. Introduced June 9, 1999, and referred to Ways and Means Committee.

H.R. 2787 (Scott)

TANF/EITC. Counts state revenue losses from earned income tax credits to TANF recipients as maintenance-of-effort expenditures. Introduced August 5, 1999, referred to the Ways and Means Committee.

H.R. 3073 (Johnson of Connecticut)

TANF. Fathers Count Act. Establishes fatherhood grants. Another title of this bill liberalizes eligibility for WtW services. Introduced October 14, passed House November 10 1999. WtW sections incorporated in Consolidated Appropriations Act (P.L.106-113).

H.R. 3434 (Lowey)

TANF. Postsecondary Adult Vocational Education Act. Defines training at an institution of higher education as a TANF work activity (with a 24-month maximum) and permits up to 30% of TANF adults to receive work credit by this means. Introduced November 17, 1999, referred to two committees.

H.R. 3708. (Cardin)

Unemployment Compensation. Provides that a part-time worker not be required to seek full-time work as a condition of eligibility. Introduced Feb. 29, 2000, referred to Ways and Means Committee.

S. 209 (Moynihan)

TANF. Prohibits states from imposing a TANF family cap (reduced or zero benefit for new baby). Introduced January 19, 1999, referred to Finance Committee. See H.R. 2690.

S. 895 (Lieberman)

Assets for low-income workers. Provides for establishment of Individual Development Accounts for persons with gross income below 60% of the area median. Introduced April 28, 1999, referred to Finance Committee. See also S. 2023 and H.R. 4106.

S. 1036 (Kohl)

Child Support. Permits states to pass through all child support collections to families and, under certain conditions, exempts them from paying back the federal share . Introduced May 13, 1999, referred to Finance Committee.

S. 1069 (Wellstone)

TANF. Includes a provision to allow unlimited waivers from TANF rules for victims of domestic violence and to exclude the exempted persons from calculation of work participation rates. Introduced May 18, 1999, referred to the Finance Committee.

S. 1154 (Voinovich)

TANF and CCDBG. Allows States to transfer another 15% of TANF funds to CCDBG for specified activities (on top of current 30% maximum). Requires that 10% of TANF high performance bonus awards be based on state-selected measures related to the status of families and children. Introduced May 27, 1999, referred to the HELP Committee.

S.Amdt. 2865 (Wellstone)

TANF. Requires HHS report on child poverty change since TANF enactment. Added by Senate to S. 1134, passed March 2, 2000. See also S.Amdt. 3264, added by Senate to S. 2549 June 8, 2000.

For Additional Reading

CRS Report RL30401. *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY1996-FY1998,* by Vee Burke.

CRS Report RL30021. *Child Care Legislation in the 106th Congress,* by Karen Spar.

CRS Report 98-875. *Child Care: State Programs Under the Child Care and Development Fund,* by Evelyne Parizek, Gene Falk, and Karen Spar.

CRS Report 97-86. *Indian Tribes and Welfare Reform,* by Vee Burke.

CRS Report 98-868. *Public Housing and Section 8 Reforms: The Quality Housing and Work Responsibility Act of 1998,* by Richard Bourdon.

CRS Report 96-720. *TANF Block Grant Program: Current Provisions Compared with AFDC,* by Vee Burke.

CRS Report RS20534. *Temporary Assistance for Needy Families and Individual Development Accounts,* by Vee Burke.

CRS Report 97-1032. *Welfare Law and Victims of Domestic Violence*, by Vee Burke.

CRS Report 97-1038. *Welfare Recipients and Workforce Laws,* by Vee Burke.

CRS Report RL30490. *Welfare Reform: The Characteristics of TANF Families in FY1998,* by Gene Falk, Vee Burke, Melinda Gish, and Shannon Harper.

CRS Report 97-509. *Welfare Reform: Role of Education and Training,* by Vee Burke.

CRS Report 98-115. *Welfare Reform: Federal-State Financing under the Temporary Assistance for Needy Families Program*, by Gene Falk.

CRS Report RL30579. *Welfare Reform: Financial Eligibility Rules and Cash Assistance Amounts under TANF,* by Craig Abbey, Vee Burke, Alice Butler, Christine Devere, Gene Falk, Thomas Gabe, Melinda Gish, Shannon Harper, Carmen Solomon-Fears, and M. Ann Wolfe.

CRS Report 97-380. *Welfare Reform: State Programs under the Block Grant for Temporary Assistance for Needy Families*, by Vee Burke, Tom Gabe, Melinda Gish, Gene Falk, Carmen Solomon-Fears, and Karen Spar.

CRS Report RS20552. *Welfare Reform and Medicaid: Brief Overview,* by Vee Burke

CRS Report 97-360. *Welfare Reform and Subsidized Public Sector Jobs,* by Linda Levine.

CRS Report 98-369. *Welfare Reform: TANF Trends and Data,* by Vee Burke.

CRS Report 98-932. *Welfare Reform: Time Limits under TANF (Temporary Assistance for Needy Families),* by Gene Falk and Courtney Schroeder.

CRS Report 98-629. *Welfare Reform: Trends in the Number of Families Receiving AFDC and TANF,* by Gene Falk.

CRS Report 98-62. *Welfare Reform: the Welfare-to-Work Grant Program,* by Christine Devere and Gene Falk.

CRS Report 98-697. *Welfare Reform: Work Trigger Time Limits, Exemptions and Sanctions under TANF,* by Vee Burke and Melinda Gish.

CRS Report 94-37. *Welfare-to-Work Programs: Lessons Learned*, by Vee Burke.

CRS Report 96-882. *The Wisconsin Works Welfare Program: Concept and Experience,* by Vee Burke.